CHAPTER 5

# INPUT TAX CREDIT AND COMPOSITION SCHEME FOR SMALL DEALERS

## UNIT 1: INPUT TAX CREDIT

**Question 1**

*Is any threshold exemption limit fixed for dealers to obtain VAT registration, as per the White Paper? If yes, why is the same provided?*

**Answer**

The threshold limit far small traders, as per the White Paper is Rs.5 lakh. The same was subsequently increased to Rs.10 lakh.

The same is fixed to provide relief to small traders.

**Question 2**

*Mr. X, a dealer in Mumbai dealing in consumer goods, submits the following information pertaining to the month of March, 2011:*

*(i) Exempt goods 'A' purchased for Rs. 2,00,000 and sold for Rs. 2,50,000.*

*(ii) Goods 'B' purchased for Rs. 2,25,000 (including VAT) and sold at a margin of 10% profit on purchases (VAT rate 12.5%)*

*(iii) Goods 'C' purchased for Rs, 1,00,000 (excluding VAT) and sold for Rs. 1,50,000 (VAT rate 4%);*

*(iv) His unutilized balance of VAT input credit on 1.3.2011 was Rs. 1,500.*

*Compute the turnover, Input VAT, Output VAT and Net VAT payable by Mr. X.*

**Answer**

| **Goods** | **Purchases Rs.** | **Input VAT credit Rs.** | **Sales (Turnover) Rs.** | **Output VAT Rs.** |
|---|---|---|---|---|
| A | 2,00,000 | - | 2,50,000 | - |
| B (See Note) | 2,00,000 | 25,000 | 2,20,000 | 27,500 |
| C | 1,00,000 | 4,000 | 1,50,000 | 6,000 |
| | 5,00,000 | 29,000 | 6,20,000 | 33,500 |

| | Rs. | Rs. |
|---|---|---|
| Exempt turnover | 2,50,000 | |
| Taxable turnover | 3,70,000 | |
| Total turnover | 6,20,000 | |
| | | |
| Opening balance of Input VAT credit | | 1,500 |
| *Add:* Input VAT credit for March, 2011 | | 29,000 |
| Total Input VAT credit available | | 30,500 |
| *Less:* Output VAT payable on taxable turnover | | 33,500 |
| Net VAT payable | | 3,000 |

| | |
|---|---|
| **Note:** Goods B purchase value (including VAT) | 2,25,000 |
| *Less*: VAT included in above $2,25,000 \times \frac{12.5}{112.5}$ | 25,000 |
| Purchase price excluding VAT | 2,00,000 |
| *Add:* Profit on above @ 10% | 20,000 |
| Selling price before VAT | 2,20,000 |
| VAT @ 12.5% on selling price | 27,500 |

**Note** : Profit margin of 10% is taken at purchase value excluding VAT.

**Question 3**

*Discuss the tax consequences of inter-state stock transfer under the VAT scheme.*

**Answer**

Inter-State stock transfers do not involve sale and, therefore they are not subjected to sales tax. The same position is continued under VAT.

However, the tax paid on:

(i) inputs used in the manufacture of finished goods which are stock transferred; or

(ii) purchases of goods which are stock transferred

is available as input tax credit after retention of 2% of such tax by the State Governments.

**Question 4**

*List the purchases which are not eligible for input tax credit.*

**Answer**

The following purchases are not eligible for input tax credit:

(a) purchases from unregistered dealers;

(b) purchases from registered dealers who opt for composition scheme under the provisions of the Act;

(c) purchase of goods as may be notified by the State Government;

(d) purchase of goods where the purchase invoice is not available with the claimant or there is evidence that the same has not been issued by the registered selling dealer from whom the goods are purported to have been purchased;

(e) purchase of goods where invoice does not show the amount of tax separately;

(f) purchase of goods which are being utilized in the manufacture of exempted goods;

(g) purchase of goods used for personal use or consumption or provided free of charge as gifts;

(h) goods imported from other States;

(i) goods imported from outside the territory of India;

(j) goods in stock which have suffered tax under an earlier Act but under VAT Act they are covered under exempted items.

## UNIT 2: COMPOSITION SCHEME FOR SMALL DEALERS

**Question 1**

*Is the VAT chain continued when a purchasing dealer opts for VAT composition scheme? What is the loss to the seller and buyer opting for the composition scheme, and the subsequent buyers?*

**Answer**

As soon as the dealer opts for the composition scheme, the VAT chain is broken.

When a composition scheme is availed by a seller or buyer, he cannot claim input credit of the tax paid on the purchases. This will add to the cost of the goods.

The benefit of tax paid earlier will not be passed on to subsequent buyers.